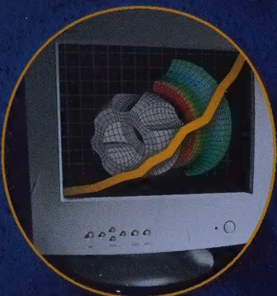


AirBoss of America Corp.

FORMULA FOR GROWTH

1999 Annual Report

CONTENTS

product

performance

profits

AirBoss of America Corp. develops, manufactures and sells high quality, proprietary rubber-based products offering enhanced performance and productivity. The Company is focused on the manufacturing of quality rubber compounds as well as specialty rubber and plastic moulded products.

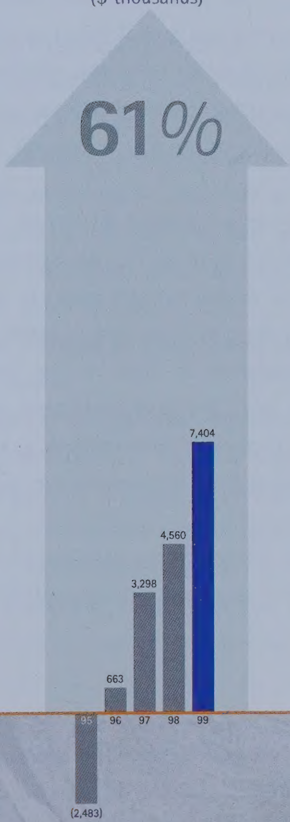
AirBoss is one of North America's largest custom rubber mixers with a capacity to supply over 200 million pounds of rubber annually to a diverse group of rubber products manufacturers.

AirBoss engineers and moulds rubber and plastic products for the transportation and industrial markets as well as for its own proprietary designs of military protective wear, commercial footwear and tires.

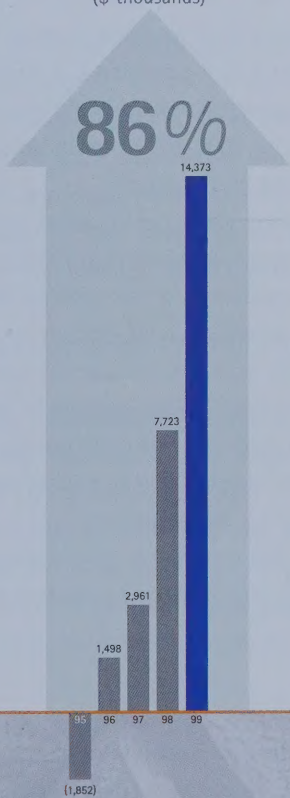
1999 FINANCIAL HIGHLIGHTS

(millions, except share and per share)	1999	1998	Change %
Value of Goods Produced and Sold	**$ 147.6**	$ 90.7	+63
Net Sales	**120.1**	79.4	+51
Gross Margin	**27.8**	13.5	+106
Net Income	**7.4**	4.6	+61
Cash Flow	**14.4**	7.7	+86
Shareholders' Equity	**$ 53.8**	$ 34.7	+55
Number of Shares Outstanding	22,629,573	19,003,945	
Per Common Share			
Net Income			
- Basic	**0.35**	0.27	+30
- Fully Diluted	**0.34**	0.26	+31
Cash Flow (weighted)	**0.67**	0.46	+46
Return on Equity	**17%**	19%	

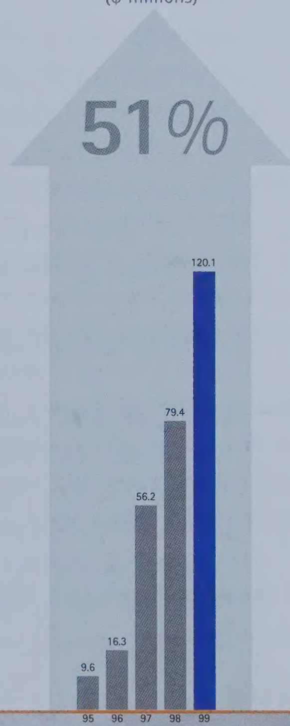
Net Income
($ thousands)



Cash Flow
($ thousands)



Net Sales
($ millions)



AirBoss of America Corp.

51%
NET SALES INCREASE

61%
NET INCOME INCREASE

AirBoss continued its strong growth in both sales and net income in 1999. Net sales for the year increased by 51% and net income grew by 61%. Sales have grown at an 80% compound rate since 1994. Growth was fuelled by capacity expansion in custom compounding, product development in the railway division and the acquisition at the end of April 1999 of specialty rubber products manufacturer, Acton International Inc. The Company believes it is well positioned to continue this growth into 2000 and beyond.

CUSTOM MIXING

The rubber mixing division in Kitchener entered 1999 operating at very close to capacity. The goal was to almost double capacity during 1999 to approximately 200 million pounds annually by adding a large mixer capable of both masterbatch and final batch mixing. This mixer was installed along with the automated raw material delivery systems by the end of the summer. Staff training and debugging of software took somewhat longer than expected but were completed by the end of the year. The Kitchener plant is now the largest independent single-site mixing operation in North America and one of the most efficient.

Upgrades and a major overhaul to the existing K-7 masterbatch mixer were also completed at year end. As a result, most of the capacity is new or newly rebuilt, making it second to none in North American capabilities. The task for 2000 will be to fill this capacity as quickly as possible and to take advantage of our position as a low cost producer.

While the expansion was taking place, the Kitchener employees were asked to vote on unionization. A clear majority voted against becoming unionized which is a reflection of an excellent working relationship between the Company and its employees. We are grateful for the strong support from our team of highly skilled employees over the past several years as we have grown the output by almost 500%.

Despite a forecasted reduction in mixing volume for tire companies in 2000, we feel that we will make significant progress in our objectives of filling capacity by year end. We have positioned our capabilities so that our advantages over our competitors should increase as commodity prices (such as carbon black and natural rubber) increase. We anticipate some pricing pressures from the automotive sector as these increases are passed along to parts manufacturers.

The acquisition of Acton is also expected to have a positive impact, as our capabilities are now extended to include high volume calendering and extruding as well as colour mixing and friction pre-form manufacturing.

RUBBER MOULDING

The Acton acquisition has substantially increased the volume of company-designed moulded products. We have added military products, recreational vehicle parts and industrial and commercial rubber footwear. The prime objectives for 2000 are to complete the integration and implementation of cost savings opportunities resulting from the acquisition, and, to improve employee relations and productivity. A three year labour contract was signed in December ending a week long strike in this facility.

We see many opportunities to expand. One of the key opportunities will be to diversify away from products which are weather dependent such as snowmobile parts and winter boots. Quebec's economy, where Acton is firmly entrenched, is expected to grow at a faster rate than the rest of Canada in 2000; and, many of Acton's products are just now being introduced to the rest of Canada and the United States.

RAILWAY PRODUCTS

The railway products division continues to expand rapidly. In 1999 we became the primary railpad supplier to the Union Pacific as well as to the Burlington Northern Santa Fe with whom a three year supply contract was signed. Also fuelling the growth were the sales of an in-house designed plastic insulator. For 2000 we have added a reinforced insulator to the product mix. We have also entered into a joint venture to supply metal fastening clips to the railways. We are expanding a facility to manufacture these products which should have a significant impact on divisional sales when it becomes operational in the latter part of 2000.

OUTLOOK

As a result of our important investments in Acton and in the Kitchener facility expansion, the Company is now capable of continuing its high revenue and earnings growth pattern of the last few years. We have the capacity to nearly double 1999 sales before any additional major expansions or capital investments are required. These investments were accomplished while maintaining more than 50% growth in sales and profits in the current year. This year we are developing marketing programs dedicated to filling this capacity by broadening our customer base, geographic sales territories and product offering. We are confident that our technology advantage and low cost producer status provide us the edge we require to capitalize on our new capacity in 2000.

There will be changes in 2000, mainly designed to further integrate operations among the locations to maximize efficiency.

Market valuation of traditional industries has temporarily taken second place to more speculative opportunities in other sectors. This has negatively impacted AirBoss' recent share price performance. We thank our employees for their extraordinary efforts and our directors for their guidance. It is frustrating for all shareholders that, in spite of significant growth in sales and earnings per share, our market valuation has decreased. We are hopeful that these conditions will not continue forever and, at some stage, the market will value companies with a track record of strong profitable growth more favorably. Management intends to continue to focus on growing the Company profitably for shareholders in 2000 and beyond.

We would like to take this opportunity to express our appreciation for the support we have received from our shareholders.

P.G. Schoch,
Chairman

R.L. Hagerman,
President

OBJECTIVES

- reduce the relative dependency on winter-related products and O.E.M. tire mixing by increasing sales in other areas
- expand the Company's effective sales territories
- increase the value added component of rubber produced by introducing new moulded products
- increase the operating efficiency and productivity throughout the Company and through the completion of the integration of Acton International Inc.

GOALS 2000

Growth in Value of Goods Produced and Sold	30%
Return on Equity	17%
Increase in EBITDA	30%
Increase in Earnings per Share	25%

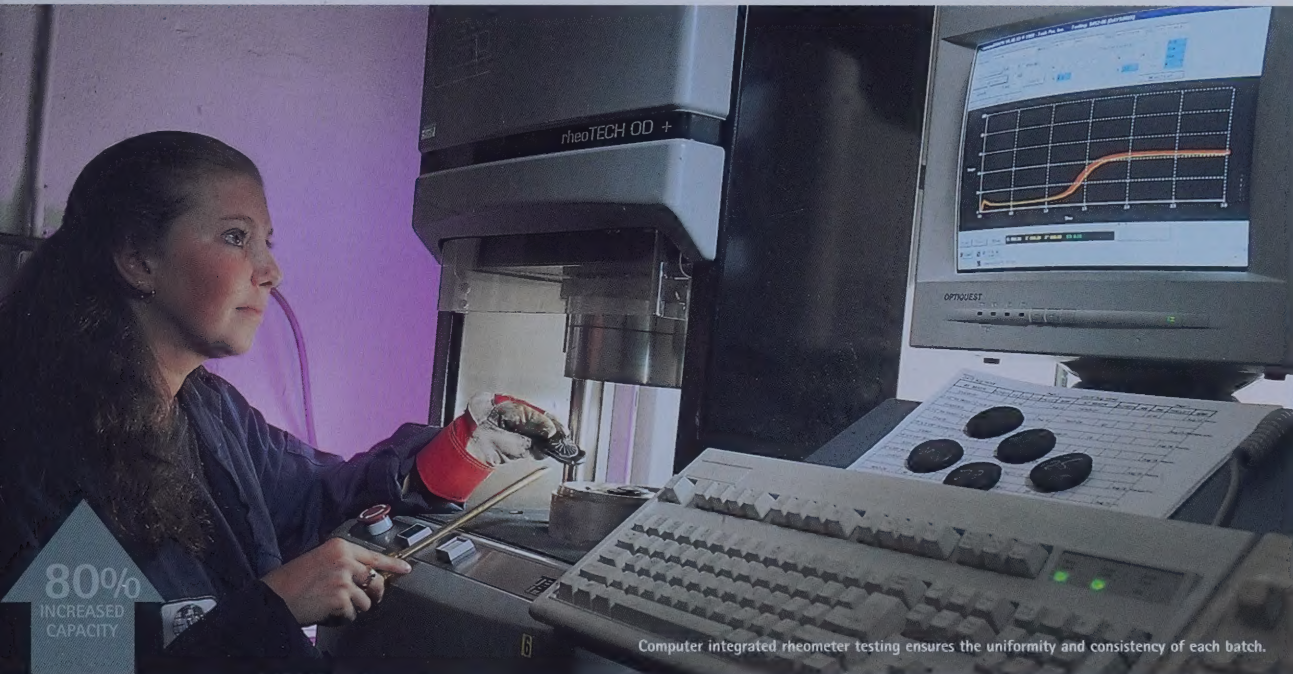
SCORECARD 1999

	Goal	Actual	% Achieved
Growth in Value of Goods Produced and Sold	40%	63%	157%
Return on Equity	18%	17%	94%
Increase in EBITDA	120%	85%	71%
Increase in Fully Diluted Earnings per Share	40%	31%	78%

While all the 1999 objectives were achieved there was a partial shortfall in achieving certain of the financial goals listed in the scorecard. This shortfall is primarily attributed to three major unanticipated expenses incurred: the large bad debt expense incurred by our mixing division, the labour strike at Acton, and the extraordinary legal expense incurred before a design patent suit against us was dismissed as having no merit. Although individually these expenses are not likely to be repeated, management will attempt to minimize such unexpected variances without sacrificing high growth targets.

The Company's goal is to maintain profitable growth by focusing on the business segments to ensure:

- diversification of product mix to lessen customer and industry dependence
- cost reduction and efficiency improvements
- new product development



Computer integrated rheometer testing ensures the uniformity and consistency of each batch.

CUSTOM RUBBER MIXING

1999 Highlights

- increased capacity by 80% to 200 million pounds a year at our Kitchener, Ontario facility
- acquired 15 million pounds of capacity in Acton Vale, Quebec with the acquisition of Acton International Inc.
- added calendering and extruding capabilities

The Industry

Custom rubber mixing continues to be a market which holds significant future growth potential for the Company. Rubber consumption in North America increased by an estimated 2% - 3% during the year and is expected to do so again in 2000. O.E. tire consumption which increased by 4% in 1999 is expected to remain constant or decline. Total consumption now exceeds 8.5 billion pounds, and of this amount approximately 30% is supplied by custom mixers. There is also a definite move by rubber moulders away from mixing rubber internally, to outsourcing from custom mixers such as ITRM and Acton. By doing so moulders can take advantage of the greater production efficiencies of the larger custom mixers as well as their in-house compound formulation expertise.

From the K-7 control room each recipe has its ingredients automatically weighed before batch mixing.


Advanced VMI Batch Off System helps produce a better quality product.

Natural rubber prices declined during the first half of 1999 reaching a 20 year low of U.S.$0.27 per pound in the summer before increasing again in the latter part of the year. This resulted in downward pricing pressures on certain of the synthetic rubber polymers. Customers benefited from these decreases during the year. Prices have recently risen substantially to the U.S.$0.38 range. Carbon black prices increased by 10% in the fall of 1999 and have undergone two price increases since then. We believe that there will be increased margin pressures on custom mixers in the new year as these price increases are passed along to consumers. This will create opportunities for efficient producers such as our ITRM division.

We have continued to expand and rebuild capacity in Kitchener and to make other improvements to maintain our position of low cost producer. The mixing capacity has been expanded from approximately 110 million pounds annually to over 200 million pounds. This addition was done cost effectively through the use of existing building space and infrastructure. In addition, the body of the large K-7 masterbatch mixer was replaced at the end of the year. As a result of this expansion and refurbishing Kitchener is now not only the single largest independent custom mixing site in North America but also one of the best equipped and most efficient.

Growth Strategy

Our focus to date has been on high volume customers. With the addition of the mixing capacity in Acton Vale, Quebec, we are now ideally positioned to service lower volume customers in eastern Canada and the northeastern United States. The addition of high volume calendering and extruding capacity offers value added capacity to the mixing services offered at both locations.

The ITRM expansion and the addition of Acton will not positively impact the financial results until the second quarter of 2000 when we expect volume from the new customers added to exceed O.E. tire mixing volume reductions. Our selling focus has been in the United States where we see the most immediate opportunity to fill this capacity. We are in the process of expanding our database of in-house compounds. Current markets targeted include hose manufacturers and cushion gum for retreaders. At current average pricing, custom mixing along with calendering and extruding have the potential to generate approximately $160 million and $20 million in annual sales, respectively, when full capacity is attained.

ENGINEERED PRODUCTS

1999 Highlights

- successful introduction of AirBoss designed plastic insulators for railway track fastening systems
- long term sales contract for track fastening parts signed
- military products sales increase at Acton

The engineered products group is comprised of railway products, military products, commercial protective footwear, AirBoss Tires, and custom moulded products. These are designed and manufactured in three locations including Acton Vale, Quebec, Kansas City, Missouri, and South Haven, Michigan.

Railway Products

Principal products: *1999 - rail pads, insulators*
New products: *2000 - heavy duty insulators and fastening clips will be added*

Growth Strategies

Sales for this division increased by 78% in 1999 as a result of having been named the principal rubber pad supplier to a second major U.S. railway and the addition of plastic insulators to the product line. Sales are expected to continue to grow in 2000 with the addition of a heavy duty insulator and fastening clips. A joint venture has been established with a major heat treated steel products manufacturer to produce these clips. Facilities construction and tooling manufacture should be completed by fall of 2000 with the first products being available shortly thereafter.


Track insulators and fastening clips.


AirBoss railpads protect concrete ties.

13%
SALES
INCREASE

Military Products

Principal products: *N.B.C. (Nuclear, Biological, Chemical) and extreme cold weather boots*
New products: *N.B.C. gloves (under development)*

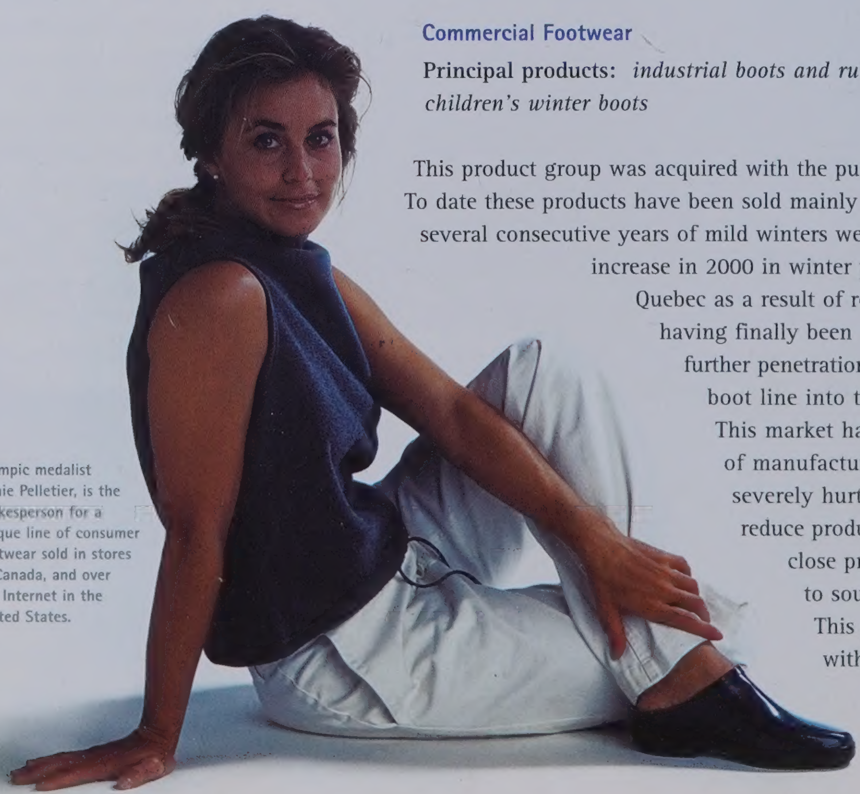

Military N.B.C and extreme cold weather boots.

Acton is the world leader in the design and supply of N.B.C. and extreme cold weather boots. The major potential growth areas are the U.S. military and civil defence as well as the addition of gloves to the product range for all military customers. Sales increased for the year ended December 31, 1999 by 13% primarily due to sales of a new high altitude extreme cold weather boot on which a considerable amount of research and development work was completed during the year. The military contacts established through the sale of protective wear have also been useful in selling many of our other products such as extruded rubber used to manufacture tank track pads.

Commercial Footwear

Principal products: *industrial boots and rubbers; children's winter boots*

This product group was acquired with the purchase of Acton. To date these products have been sold mainly in Quebec. After several consecutive years of mild winters we are forecasting an increase in 2000 in winter product sales in Quebec as a result of retail inventories having finally been sold, as well as further penetration with the industrial boot line into the U.S. markets. This market has seen a number of manufacturers, who were severely hurt by mild winters, reduce production levels or even close production facilities to source offshore. This provides Acton with an opportunity to fill the void.


Olympic medalist Annie Pelletier, is the spokesperson for a unique line of consumer footwear sold in stores in Canada, and over the Internet in the United States.

Tires

8%
SALES
INCREASE

AirBoss Tire division sales increased 8% in 1999. Capacity constraints in certain sizes limited the division's potential. Interest in the tires' unique characteristics has grown as witnessed by their exclusive use by a major lift manufacturer and their use by another skid-steer manufacturer under a private label agreement. To date, three major U.S. airlines have adopted the AirBoss cart tire as their preferred equipment. The tires have demonstrated excellent wear characteristics with no downtime due to flats and little damage to equipment. Several other major airlines are currently conducting field trials of the tire.

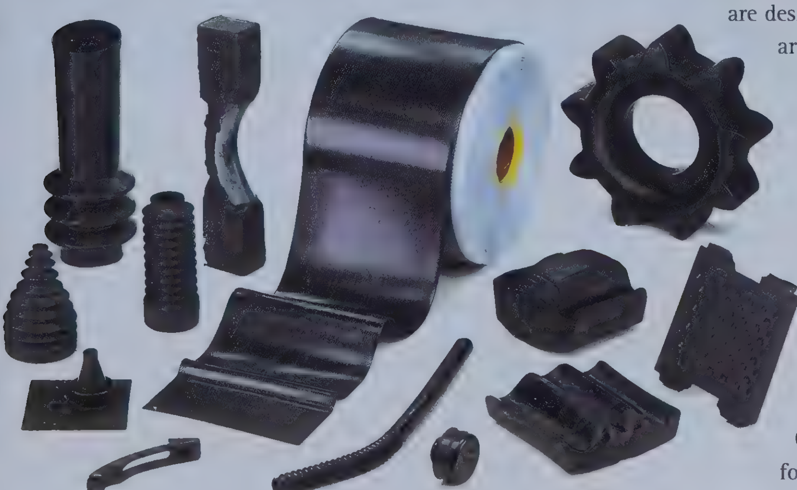
AirBoss tires for safety and reliability.

The strategy for AirBoss Tire product in 2000 will be to seek increased distribution channels through joint venture or partnership. The tire industry is heavily reliant upon its established independent dealer network. To improve profitability and increase customer service levels will necessitate alliances with national distributors. Capacity issues continue to be addressed through the purchase of additional tire moulds and refurbishment of equipment.

Custom Moulding

In addition to the product lines developed by the Company, both Acton and our Michigan plant mould a variety of parts for the transportation, leisure vehicle and other industrial markets. Typically these products are designed internally and compounds are developed specifically for the application.

We have targeted Tier 1 automotive suppliers as a prime potential customer group. Our strategy is to provide both design and material development capabilities to these customers. During the year we have developed such diverse products as CV seals and brake pedals for customers.


Some of the many industrial products.

RESEARCH AND DEVELOPMENT

Research and development is a cornerstone of AirBoss' growth strategy. In 1999 new products developed internally for both the military and railway track fastening markets made significant contributions to profitable growth. In 2000 we expect this trend to continue with our newly developed extreme cold weather and high altitude military boots and certain moulded products that we have designed for automotive customers. Moulded N.B.C. gloves are also under development.

We are in the process of obtaining independent certified laboratory status for our rubber compound development laboratory in Kitchener. Our strength continues to be the combination of design and materials development along with a commitment to continuous product improvement. AirBoss is one of the few rubber companies in North America that can offer both materials development capabilities and rubber product engineering and design.

We believe the success of our research and development program will continue to position us as one of the leading North American rubber companies.

AirBoss Forward-Looking Statement Disclaimer

This report contains forward-looking statements which reflect management's best judgement based on factors currently known but involve significant risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to risks more fully described in the "Risk Factors" section of the Company's Annual Report, and other risks detailed in filings with the Ontario Securities Commission. Forward-looking information provided pursuant to the safe harbor established by recent securities legislation should be evaluated in the context of these factors.

SALES

1999 compared to 1998 - Several major customers supply their own materials for AirBoss to process. The Company reports net sales as being net of these materials received. The gross value of goods produced and sold, which includes the value of the materials received, amounted to $147.6 million, a 63% increase over the previous year's sales of $90.7 million. Of this increase 34% was generated by the acquisition of Acton and 24% by the ITRM Division.

Net sales for the year ended December 31, 1999 increased by 51% from $79.4 million to $120.1 million. The acquisition of Acton International Inc. on April 22, 1999 accounted for 38% of the increase. Rubber mixing, which operated at or near capacity for most of the year until the ITRM facility completed a doubling of its capacity in July, generated 7% of the increase in net sales dollars. Sales of rail pads and an expanded range of new railway products including insulators, and, modest increases in tire sales accounted for the remainder of the sales growth.

1998 compared to 1997 - Net sales for the year ended December 31, 1998 increased by 41% mainly due to the rubber mixing operation operating at or near capacity for most of the year. Major new customers obtained during the year included three multi-national pneumatic tire manufacturers who supply materials for AirBoss to process. The gross value of goods produced and sold of $90.7 million increased 60% over the previous year. Sales were also affected by the sale of the first 200,000 plastic rail pads, and a reduction in the selling price of AirBoss tire assemblies.

GROSS MARGINS

1999 compared to 1998 - Gross margins on net sales increased to 23.2% (18.9% on value of goods produced) from 17.0% (14.9% on value of goods produced) in 1998. The improvement reflects three significant factors. First, ITRM capacity utilization improved through a 34% increase of throughput. Secondly, sales to customers who supplied their own materials increased to 33% from 17% of total pounds sold. The third is the acquisition of Acton International Inc. Acton's commercial and military footwear products are higher margin products.

1998 compared to 1997 - Gross margins on net sales improved to 17% in 1998 from 14% in 1997. The increase was due to the greater utilization of the mixing equipment and the higher percentage of volume (12% vs. 1% in 1997) represented by customers who supplied their own raw materials.

EXPENSES

1999 compared to 1998 - General and administrative expenses increased by $3.6 million. Acton International Inc. accounted for approximately 27% of the increase. The railway division, which saw its first full year of operations (compared to approximately six months in 1998) accounted for 14% of the increase. Also included in the railway division's expenses was $395,000 for the defense of a product patent lawsuit (see "Lawsuits"). In addition the Company incurred approximately $600,000 in bad debt expenses resulting from one customer of the mixing division. Remaining increases resulted from the addition of staff and systems at ITRM and head office to manage the growth of the Company.

Sales and marketing expenses increased by $3.6 million of which Acton accounted for 75%. Acton's commercial footwear division, unlike the industrial and other engineered products, competes in markets requiring significant selling and marketing support. The remaining cost increases were incurred in the railway division, which was operational only six months in 1998, and in ITRM as sales staff were increased to fill the additional capacity resulting from the expansion.

1998 compared to 1997 - General and administrative expenses increased by approximately $500,000. Increases were incurred in respect of the Kansas City railway products office start up and computer systems in all locations. Selling expenses increased to $2.5 million from $1.9 million. The increase in expenses was mainly in advertising at ITRM and in staff at Kansas City.

LIQUIDITY AND CAPITAL RESOURCES

1999 compared to 1998 - Working capital decreased to $8.8 million in 1999 from $9.5 million in 1998. The 1998 balance included $4.8 million of the $7.7 million dollars raised to finance the expansion at ITRM in 1999. Excluding this, working capital actually increased by $4.1 million in the year. The capital investment virtually doubled ITRM's capacity and also resulted in the substantial upgrading and overhaul of ITRM's strategic assets, the K-7 mixer in particular. With this investment most of the major equipment overhaul requirements have been completed, providing AirBoss with reliable manufacturing facilities and reducing maintenance costs.

The Company generated an operating cash flow of $14.4 million in 1999 compared to $7.7 million in 1998. The cash flow from operations is expected to increase again in 2000 due to the utilization of the increased mixing capacity and with the reduced capital requirements.

During April 1999, the Company acquired Acton International Inc. The acquisition was financed by way of a share issuance, debt and cash. Debt financing amounted to $19,222 in long-term debt and an operating line of credit of $14,000.

Consolidated long-term debt as at December 31, 1999 was $31,776. Of this amount $5,703 is payable in 2000. The Company believes that cash flow from operations during 2000 will be sufficient to meet all debt repayment obligations as well as to fund additions to working capital, and, to fund capital requirements. The capital program for 2000 will continue to focus upon upgrading and refurbishing to improve efficiency, quality and reliability, and, to provide rail fastening clips for the Railway Products division.

1998 compared to 1997 - Working capital increased from $4.6 million in 1997 to $9.5 million in 1998. Positive cash flows during the year were used to finance capacity expansions in both the custom mixing and railway products. In June 1998, the Company announced a two-phased expansion to the rubber mixing plant in Kitchener. The first phase, which was completed in September 1998, increased capacity by approximately 15%.

In December 1998 the Company raised $7.7 million (net of expenses) to finance the remainder of the ITRM expansion and provide for additional capital requirements.

RISK FACTORS

COMPETITION

The Company competes directly against major international custom rubber compounders in most of its identified and potential market segments. Most of these companies have strong established competitive positions in these markets, as in the case of the industry leader, and much greater resources, both financially and in terms of personnel, than the Company and have long-standing relationships with the Company's prospective customers and well established marketing and distribution networks.

Furthermore, since there is a certain commodity-like element to certain segments of the Company's rubber mixing business, the customers of this business are price sensitive and the Company competes against manufacturers who are able to provide similar services at competitive prices.

The Company manufactures commercial footwear, which competes against other established brand names. While the Company's rubber footwear generally offers greater protection and wear features, competitive products, usually made of plastic and imported, enjoy lower labour and material costs. They are, therefore, retailed at lower prices and may, accordingly, appeal to price sensitive purchasers.

RAW MATERIALS AND INVENTORY

The Company depends on certain outside sources for raw materials used in the production of its products, the price and availability of which are subject to market conditions. Certain raw materials and components such as specialized wheels are available from limited sources, some of which require order lead times of three to five months. As a result, any unforeseen shortage of such raw materials could delay delivery, increase costs and decrease profitability. The Company does not have long-term supply contracts with its vendors and purchases the raw materials on a purchase order basis. Although the Company attempts to hedge certain of the risk of increased prices for raw materials by entering into futures contracts, increased prices for raw materials for which the Company does not have alternative sources and which have not been hedged through futures contracts could have a material adverse effect on the

Company's business, results of operations and financial condition. Although the Company attempts to pass price changes in raw materials on to its customers, the Company may not be able to adjust its prices, especially in the short term, to recover the costs of increases in raw material prices.

WEATHER

The Company builds its commercial footwear inventory, consisting primarily of boots, during the first half of the year for delivery to retailers for their fall and winter sales during the last half of the year. The volume of these sales is largely dependent on weather conditions. The Company also manufactures rubber compounds used extensively in snowmobile tread manufacture. The annual sales of these compounds depend upon snowmobile sales, which in turn are affected by weather conditions.

IMPACT OF ECONOMIC CYCLE

The demand for the products produced by the Company can vary in accordance with general economic cycles and the economic conditions of the industry sectors that are served by the Company. In addition, such industry sectors are cyclical in nature. The Company is particularly sensitive to trends in the retail, automotive, construction, mining and rail transportation industries because these industries are significant markets for the Company's business and are highly cyclical.

The Company's railway pad business, for example, is influenced by the economic conditions of the railroad industry. The railroad industry, in turn, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight it transports. Many of the goods and commodities carried by the railway companies experience cyclical demand. If there is an economic slowdown or recession in North America or the other markets in which the Company intends to expand, the volume of rail shipments carried by the Company is likely to be reduced, thereby reducing the need for new track construction and maintenance and, in turn, the demand for the Company's railway pads.

PRODUCT LIABILITY AND WARRANTY CLAIMS

As a manufacturer of rubber-based products, the Company faces a risk of product liability and warranty claims. Although the Company carries commercial general liability insurance in an amount considered reasonable by industry standards, any claim which is successful and is not covered by insurance or which exceeds the policy limit could have an adverse affect on the Company. No product liability claims have been made against the Company. Warranty claims have not been material and are within industry standard expectations.

INSURANCE

The Company has comprehensive insurance coverage for AirBoss of America Corp. and its divisions and subsidiaries. The policy limits are considered appropriate for the Company's needs.

DEPENDENCE OF KEY CUSTOMER AND CONTACTS

From time to time, a significant portion of the Company's sales for a given period may be represented by a small number of customers. Four customers represented approximately 47% of the sales for the rubber mixing division for the years ending December 31, 1999 and 1998 respectively. Through diversification undertaken in 1999 the dependence has been reduced to 40%. The loss of any such customers or the delay or cancellation of any orders under certain high-volume contracts could have a significant impact on the Company. In 2000 we anticipate a decline in volume with the O.E. tire companies in our mixing division.

CAPACITY AND EQUIPMENT

The rubber mixing business completed an expansion in July 1999, which effectively doubled its annual capacity to approximately 200 million pounds. This effectively eliminated the capacity constraints faced by the Company in 1998. In addition, the K-7 Master Batch mixer, the core mixer in the Company, was overhauled at the end of the year. The Company has thereby ensured itself of a reliable supply capability for 2000 and beyond. Capacity for the AirBoss Tire business was increased in 1999 through the purchase of moulds, and equipment modifications and improvements. However, should there be any significant lengthy breakdown on more than one of the Company's injection moulding presses, sales would be impacted.

CURRENCY EXPOSURE

The Company has revenues and expenses denominated in both Canadian and U.S. dollars. In addition, the price to the Company of certain raw materials and other expense items and the competitiveness of prices charged by the Company for its products will be indirectly affected by currency fluctuations. Changes in the value of the Canadian dollar relative to the U.S. dollar could have a material adverse effect on the Company's results of operations. The Company reviews its currency exposure positions from time to time and hedges its exchange risk when it determines it to be advisable. However, there is no assurance that such hedging strategy will be successful or cost effective, and the profitability of the Company's business could be adversely affected.

ENVIRONMENTAL

As the Company handles various hazardous chemicals in its manufacturing process, the nature of the Company's business may expose it to risks of causing or being deemed to have caused environmental or other damages, such as the potential for harmful substances escaping into the environment and causing damage or injuries. The Company devotes resources to ensure that its operations are conducted in a manner that minimizes such risks. To date, no governmental authority has required the Company to pay any material fines or remediation expenses in connection with any alleged violation of environmental regulation. However, there can be no assurance that future environmental damage will not occur or that environmental damage due to prior or present practices will not result in future liabilities.

The Company is subject to environmental regulation by federal, provincial, state and local authorities. While management believes that the Company is in substantial compliance with all material government requirements relating to environmental controls on its operations, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. Management is not able to predict future costs which may be incurred to meet environmental obligations.

LAWSUITS

The Company has been sued for patent infringement with respect to certain of its plastic rail products. Prior to production the Company obtained independent legal advice that it was not infringing on any patent. The Company believes it has an extremely strong defense. The case was recently dismissed in a summary judgement ruling as being without merit; however, it is now under appeal by the plaintiffs. There is no guarantee that these matters will be settled in the Company's favor.

YEAR 2000

During the year, the Company developed and executed a Year 2000 ("Y2K") strategy, which focused upon the determination and evaluation of all computerized or computer-dependent equipment. Staff often working with either independent outside consultants or the original equipment vendors tested and modified equipment where required. Financial systems and support equipment were upgraded or replaced as required. The Company also undertook extensive surveys of customers and suppliers to determine their Y2K readiness. During the year the most critical manufacturing equipment, namely the K-7 mixer in Kitchener, was tested and found compliant. The new mixer addition was purchased with a compliance guarantee. Acton International Inc. followed similar compliance procedures as the AirBoss group. To obtain an independent perspective of the Y2K compliance processes, AirBoss engaged outside consultants to evaluate the Y2K compliance procedures at each site. Their report indicated that all reasonable steps to achieve Y2K compliance had been undertaken.

As at March 3, 2000 the Company has not experienced any Y2K compliance issues either internally or with suppliers or customers.

OUTLOOK

The Company has experienced a 95% compound rate of sales growth since 1996 (76% when the Acton acquisition is excluded). The Company will enjoy continued growth in 2000 as it benefits from the expansion of rubber mixing capacity in its Kitchener facility and from the first full year of inclusion of Acton International Inc.

The Railway products business anticipates continued growth due to the establishment of a joint venture to manufacture clips and to the continuing development of other new products.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of AirBoss of America Corp. and all the information in the annual report are the responsibility of management, and have been approved by the Board of Directors.

The financial statements have been prepared by management, in accordance with generally accepted accounting principles. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented in this annual report and has ensured that it is consistent with that presented in the financial statements.

AirBoss of America Corp. maintains systems of internal accounting and administrative controls consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and a majority of its members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers the engagement or re-appointment of the external auditors for review by the Board and approval by the shareholders.

The financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

R.L. Hagerman
President

AUDITED FINANCIAL STATEMENTS

Auditors' Report To the Shareholders of AirBoss of America Corp.

We have audited the consolidated balance sheet of AirBoss of America Corp. as at December 31, 1999 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Kitchener, Canada
March 3, 2000

CONSOLIDATED BALANCE SHEET

(thousands)

	As At December 31	
	1999	1998
ASSETS (Notes 4, 5)		
Current assets:		
Cash	**$ –**	$ 4,843
Accounts receivable	**18,569**	7,401
Inventories	**19,091**	10,121
Income taxes recoverable	**1,094**	–
Prepaid expenses	**918**	483
	39,672	22,848
Capital assets (Note 3)	**49,321**	24,368
Goodwill (net of accumulated amortization: 1999 - $945, 1998 - $206)	**26,661**	10,330
Future tax asset (Note 7)	**621**	743
Other assets (net of accumulated amortization: 1999 - $647, 1998 - $299)	**1,350**	950
	$ 117,625	$ 59,239
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand loan (Note 4)	**$ 15,415**	$ 4,001
Accounts payable and accrued liabilities	**9,744**	6,552
Current portion of term loan and other debt	**5,703**	2,780
	30,862	13,333
Term loan (Note 4)	**16,258**	4,350
Other debt (Note 5)	**9,815**	6,871
Accrued benefit liability (Note 9)	**24**	–
Future income taxes (Note 7)	**6,871**	–
Commitments and contingencies (Notes 8, 11)		
Shareholders' equity:		
Share capital (Note 6)	**38,533**	26,827
Retained earnings	**15,262**	7,858
	53,795	34,685
	$ 117,625	$ 59,239

[illegible]

Approved by the Board

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(thousands except per share amounts)

	Year ended December 31 1999	1998
SALES	**$ 120,111**	$ 79,400
Cost of sales	**92,291**	65,908
Gross margin	**27,820**	13,492
EXPENSES:		
General and administrative	**6,347**	2,728
Selling, marketing and distribution	**6,201**	2,543
Product research	**526**	341
Amortization	**1,009**	471
Total operating expenses	**14,083**	6,083
Income from operations	**13,737**	7,409
Interest expense	**2,614**	1,008
Other expenses (income)	**(247)**	(309)
Income before income taxes	**11,370**	6,710
Provision for income taxes (Note 7)	**3,966**	2,150
Net income	**7,404**	4,560
Retained earnings, beginning of year	**7,858**	3,298
Retained earnings, end of year	**$ 15,262**	$ 7,858
Earnings per share - Basic	**$ 0.35**	$ 0.27
- Fully Diluted	**$ 0.34**	$ 0.26

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

(thousands)

	Year ended December 31 1999	1998
CASH PROVIDED BY (USED IN):		
Operating Activities:		
Net income	**$ 7,404**	$ 4,560
Items not affecting cash:		
Amortization	**3,183**	1,562
Future income taxes (Note 7)	**3,786**	1,601
	14,373	7,723
Changes in non-cash operating working capital balances	**(1,117)**	(4,257)
	13,256	3,466
Investing Activities:		
Purchase of capital assets	**(10,980)**	(3,689)
Purchase of other assets	**(404)**	(169)
Acquisition of Acton International Inc. (Note 2)	**(4,438)**	–
Investment in AirBoss Railway	**–**	(512)
	(15,822)	(4,370)
Financing Activities:		
Repayment of other debt	**(1,799)**	(1,529)
Repayment of term debt	**(1,406)**	(600)
Issuance of share capital (Note 6)	**928**	135
Issue of special warrants	**–**	7,741
	(2,277)	5,747
Increase (decrease) in cash for the year	**(4,843)**	4,843
Cash, beginning of the year	**4,843**	–
Cash, end of the year	**$ –**	$ 4,843

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998
(thousands except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) **BASIS OF PRESENTATION**
These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

b) **CAPITAL ASSETS**
Capital assets are recorded at cost and are depreciated to the estimated salvage values on the following basis over their expected useful lives.
Buildings – straight-line basis over 25 years
Equipment – straight-line basis over five years to fifteen years and unit of production basis

c) **GOODWILL**
Goodwill represents the excess of the purchase price over the fair value of assets acquired and is being amortized on a straight-line basis over twenty-five to forty years. Goodwill is reviewed annually for impairment. Factors, which are reviewed, include future discounted cash flows. Any impairment will be written off in the year incurred.

d) **INVENTORIES**
Inventories are recorded at the lower of cost and market. Cost is determined on a first-in, first-out basis. Market is defined as replacement cost for raw materials and net realizable value for work-in-process and finished goods.

e) **OTHER ASSETS**
Patents and licence rights – The Company has capitalized the costs incurred to acquire the patents and licence rights. Patent costs will be amortized over the useful lives of the patents and licence rights amortized over forty years.

Product development – The Company has capitalized the costs incurred in developing the products that it plans to bring into commercial production. Product development costs are amortized on a unit-of-production basis. These costs will be written down in the event of impairment. All other product development and research costs are expensed as incurred.

Deferred financing – Deferred financing is being amortized over the term of the loan on a straight-line basis.

f) **EARNINGS PER SHARE**
Earnings per share have been calculated on the weighted average number of common shares outstanding during the year.

g) **FOREIGN CURRENCY TRANSLATION**
The accounts of the Company's wholly owned subsidiaries have been translated using the Temporal method, which translates monetary items at the rate of exchange in effect at the balance sheet date and non-monetary items at historical rates. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Exchange gains and losses arising on translation of foreign currency are included in current operations.

h) **CONCENTRATION OF CREDIT RISK**
Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of trade accounts receivable. A majority of the Company's trade receivables are derived from sales to original equipment manufacturers and distributors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Company maintains reserves for potential credit losses, and any such losses to date have been within management's expectations.

i) **USE OF ESTIMATES**
The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

j) **FAIR VALUE OF FINANCIAL INSTRUMENTS**
The Company's financial instruments consist of cash, accounts receivable, demand loan, accounts payable, accrued benefit liability, term loan and other debt.

The Company determines fair value of its financial instruments based on quoted market values or discounted cash flow analyses. The recorded amount of financial instruments in these consolidated financial statements approximate their fair values.

k) **POST RETIREMENT BENEFITS**
The Company provides designated employees with defined post retirement benefits based upon their years of service. These benefits are accrued by the Company and remain unfunded unless certain events occur. The current provision for the benefit expense reflects an actuarially determined amortization of past service costs over the remaining years of employment until the maximum entitlement is achieved, imputed interest on the unfunded balance, and, a provision for current service.

l) **SEGMENTED INFORMATION**
In 1998, the Company adopted the Canadian Institute of Chartered Accountants handbook section 1701 ("CICA 1701") Segment Disclosures, which supersedes CICA handbook section 1700, Segmented Information, replacing the "industry segment" approach with the "management" approach. The management approach designated the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. CICA 1701 also requires disclosures about products and services, geographic areas, and major customers. The adoption of CICA 1701 did not affect results of operations or financial position (see "Segmented Information" Note 10).

NOTE 2 – ACQUISITIONS, JOINT VENTURES

Acton International Inc.
On April 22, 1999, the Company acquired 100% of the shares of Acton International Inc. The acquisition was accounted for using the purchase method of accounting and was financed through the issuance of shares, debt and cash as summarized below:

Fair value of shares acquired:	
Shares of Acton International Inc.	$ 34,438
Composition of purchase financing:	
Issuance of common shares	$ 10,778
Term loans	15,000
Promissory notes	4,222
Cash	4,438
	$ 34,438
Assets acquired:	
Current assets	$ 16,073
Capital and long term assets	16,566
Goodwill	16,917
	49,556
Less:	
Liabilities assumed	15,118
Net assets	$ 34,438

Joint Venture
On August 31, 1999, the Company entered into a 50/50 joint venture with Ralph McKay Industries Inc. for the manufacture of rail clips, which will be exclusively sold by AirBoss Railway Products Inc. The joint venture is accounted for using the proportionate consolidation method of accounting (Note 8).

ITRM Business
On December 31, 1996 the Company acquired the operating assets, liabilities, and business of International Technical Rubber Manufacturing Inc. (the "ITRM Business") for $14,783 which was financed through the issuance of special warrants, debt and cash. The ITRM Business was amalgamated with AirBoss of America Corp. on June 30,1998. The acquisition was accounted for using the purchase method.

Under the terms of the purchase agreement the Vendor could earn further amounts based upon an Earnout arrangement. In June 1998, the Earnout was fixed by mutual agreement between the vendor and the Company at $8,500 bringing the purchase price of the business to $23,283. The additional amount was accounted for as an increase in goodwill and an increase in other debt (Note 5).

NOTE 3 – CAPITAL ASSETS

December 31, 1999	Cost	Accumulated Amortization	Net
Land	$ 2,500	$ –	$ 2,500
Buildings	8,005	332	7,673
Equipment	45,324	6,176	39,148
	$ 55,829	$ 6,508	$ 49,321

December 31, 1998	Cost	Accumulated Amortization	Net
Land	$ 2,000	$ –	$ 2,000
Buildings	1,434	88	1,346
Equipment	25,049	4,027	21,022
	$ 28,483	$ 4,115	$ 24,368

NOTE 4 – LOAN FACILITIES

The Company has available an operating line of credit up to $24,000 (1998 - $7,000).

The operating line of credit bears interest at the Bank's prime rate plus 0.5% per annum, with respect to loans denominated in Canadian currency and at the Bank's U.S. prime rate plus 0.5% per annum, with respect to loans denominated in U.S. currency. The fee, charged for bankers' acceptances, is Bank's stamping fee plus 1.25%.

The Company has available commercial term loan facilities of up to $18,700 (1998 - $5,100) as follows:

	Principal repayments				
	2000	2001	2002	2003	2004
$14,000 - at Bank's prime plus 1.5% per annum or for bankers acceptances, Bank's stamping fee plus 3.0%	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 8,000
$4,600 - at Bank's prime plus 0.5% per annum or for bankers acceptances, Bank's stamping fee plus 1.50%	900	900	2,800		
$94 - at Bank's US prime plus 1.0% per annum	36	36	22		
Total	$ 2,436	$ 2,436	$ 4,322	$ 1,500	$ 8,000

The indebtedness to the Bank is secured by general security agreement entered into by the Company covering all the assets and security agreements entered into by the subsidiaries supported by collateral mortgages.

NOTE 5 - OTHER DEBT

	1999	1998
Promissory notes	$ 4,222	$ -
Unsecured loans	992	-
Discounted note	1,062	1,392
Promissory note and discounted liability	6,806	7,508
	$ 13,082	$ 8,900
Less current portion	3,267	2,029
	$ 9,815	$ 6,871

Other debt includes two promissory notes taken back by the vendors of Acton International Inc. The notes bear interest of 8% and are secured by a collateral mortgage of $4,222 on the assets of Acton International Inc., and rank second to the Bank. They are repayable in four equal annual payments of $634 with the balance of $1,686 payable on April 20, 2004.

The Company owes $992 ($742 and $250 respectively) under government-sponsored loan arrangements supporting research and development and small business capital. The loans are unsecured and bear interest at NIL % and 9% percent respectively. They are repayable in three equal annual payments of $247 on each April 1 and monthly payments of $3 over 76 months respectively.

Other debt includes a discounted note that has a face value of $2,500, is non-interest bearing and is payable in equal monthly installments of $35 over its six-year term. The carrying value in the financial statements represents the present value under a non-cancelable operating lease of these payments discounted at 7%. The Company has leased vacant warehouse space to the note holder being the vendor of the ITRM Business for a similar six-year term. The agreed upon rent equals the amounts due under the note and the Company has retained the right of offset on amounts owing.

In June 1998, the Earnout under the ITRM Business acquisition was fixed at $8,500. The consideration given was a promissory note of $8,500, bearing interest of 6% per annum, repayable in sixty monthly installments of $142 principal and interest, secured by a debenture of $18,528 on the assets of the ITRM Business. Payments under the promissory note commenced July 1, 1998. Other debt includes a discounted liability bearing interest of 8% per annum and payable in fifty-two monthly installments of $26.

Future other debt payments over each of the next five years are as follows:

2000	$ 3,267
2001	3,288
2002	3,207
2003	1,524
2004	1,731
Thereafter	65
	$ 13,082

NOTE 6 - SHARE CAPITAL

Authorized:
Unlimited number of common shares.
Unlimited number of Class B preference shares without par value and issuable in series subject to the filing of articles of amendment. The directors may fix from time to time before such issue the number of shares that is to comprise each series and the designations, rights, privileges, restrictions, and conditions attaching to each series.

Issued share capital of the Company is as follows:

	Special Warrants		Common Shares	
	Amount (in thousands)	Number of Special Warrants	Amount (in thousands)	Number of Common Shares
Balance, December 31,1997	$ –	–	$ 18,951	16,594,431
Exercise of stock options			135	75,114
Issue of Special Warrants (net of issue costs)	7,741	2,334,400	–	–
Balance, December 31,1998	7,741	2,334,400	19,086	16,669,545
Exercise of stock options			928	523,750
Issue of shares - purchase of Acton International Inc.			10,778	3,101,878
Conversion of Special Warrants	(7,741)	(2,334,400)	7,741	2,334,400
Balance, December 31,1999	$ –	–	$ 38,533	22,629,573

Pursuant to an agreement dated November 26, 1998, the Company sold to underwriters 2,334,400 Special Warrants for net proceeds to the Company of $7,741. During 1999 the Special Warrants were exchanged into Common Shares of the Company for no additional consideration.

On May 28, 1998, the Company received approval from shareholders to consolidate the Common Shares on a one for four basis. The issued Common Shares at that time changed from 66,377,725 to 16,594,545 after the rounding of partial shares. All share and per share amounts have been restated retroactively.

Stock options

The Company has available 2,129,250 shares for issuance under its stock option plan. The following vested options, granted to directors and officers of the Company, which were outstanding at December 31, 1999 with a weighted average exercise price of $3.06.

Number of Options	Exercise Price	Expiry Date
20,000	$ 2.04	January 9, 2000
143,750	$ 2.00	May 8, 2000
616,250	$ 2.08	November 12, 2000
100,000	$ 2.88	April 2, 2001
7,500	$ 3.08	April 2, 2001
50,000	$ 3.60	May 1, 2002
50,000	$ 3.50	July 27, 2002
130,000	$ 3.49	April 15, 2003
475,000	$ 4.50	June 2, 2004
1,592,500		

Options	1999 Shares	1999 Weighted-Average Exercise Price	1998 Shares	1998 Weighted-Average Exercise Price
Outstanding at beginning of year	1,411,250	$ 2.04	1,378,864	$ 1.96
Granted	705,000	4.18	107,500	2.89
Exercised	(523,750)	1.84	(75,114)	1.80
Outstanding and exercisable at end of year	1,592,500	$ 3.06	1,411,250	$ 2.04

NOTE 7 – INCOME TAXES

The provision for income taxes differs from the amount computed by applying the Canadian statutory income tax rate to income before income taxes for the following reasons:

	Year ended December 31 1999	1998
Combined federal and provincial statutory income tax rate	44.4%	44.6%
Canadian rate adjustment for manufacturing and processing activities	(8.6)	(9.8)
Canadian investment tax credits	(3.0)	–
Non-deductible expenses	2.4	–
Foreign tax differential	–	(1.1)
Other	(0.3)	(1.7)
Total:	34.9%	32.0%

The components of the provision for income taxes are as follows:

	1999	1998
Current	$ 180	$ 549
Future	3,786	1,601
	$ 3,966	$ 2,150

The components of the future income tax asset (liability) clarified by the source of the cumulative differences are as follows:

	1999	1998
Tax depreciation in excess of accounting depreciation	$ (6,929)	$ (2,376)
Research and development expenses deducted for accounting purposes in excess of tax purposes	(174)	100
Losses available to offset future income taxes	621	3,207
Taxes recoverable on long term liability	266	–
Valuation allowance	(34)	(224)
Other	–	36
Subtotal	(6,250)	743
Future income tax asset	621	743
	$ (6,871)	$ –

The Company has losses of $1,563 available to offset future income taxes in the United States that have no expiry date.

NOTE 8 - COMMITMENTS

The Company is committed under non-cancelable operating lease agreements to minimum rentals for premises and equipment as follows:

2000	$ 249
2001	161
2002	69
2003	2
2004	–

Under the terms of a joint venture agreement negotiated in 1999 (Note 2), the Company is required to fund one-half of the cost of capital assets to be used in the manufacture of rail clips. The outstanding commitment is approximately $1,277.

NOTE 9 - RETIREMENT COMPENSATION PLAN

During the year the Company implemented a defined benefit retirement compensation plan for designated employees. The plan provides for retirement compensation payments based upon the employees' years of service. The plan provides that it be unfunded until the occurrence of certain events, including termination and change of control of the Company.

Benefit obligation at commencement of plan	$ 553
Service cost	9
Interest cost	6
Benefit obligation at end of year	$ 568

The Company's net benefit plan expense is as follows:	
Service cost	$ 9
Interest cost	6
Amortization of past service benefit	9
	$ 24

Accrued benefit liability	$ 24
Unamortizated benefit obligation at end of year	$ 544
Assumed discount rate as of December 31, 1999	6.5%

Benefit obligations were estimated under an actuarial report prepared November 1, 1999, reflecting each designated employee's 10 years of service, and will be amortized over a period of ten years.

NOTE 10 – SEGMENTED INFORMATION

The Company has production facilities in Canada and the United States. Prior to 1999 the Company primarily developed, produced and moulded rubber compounds for rubber goods manufacturers and for its tire business. Therefore, the Company's sale of its own rubber products for 1998 did not constitute a reportable segment. In April 1999 the Company acquired Acton International Inc, which resulted in a significant vertical expansion into engineered products. While the manufacturing locations of the Company are managed separately, the product lines are defined and managed within two business segments.

Four customers represented 40% and 47% of sales in 1999 and 1998, respectively.

1999	Rubber Mixing & Tire Operations	Engineered Products	Unallocated	Total
Contribution	$ 12,458	$ 3,184		$ 15,642
Administrative costs			1,658	1,658
Income before interest and taxes				13,984
Interest			2,614	2,614
Provision for taxes			3,966	3,966
Net income				$ 7,404
Assets employed	$ 57,010	$ 60,070	$ 545	$ 117,625
Amortization - Goodwill	219	366	585	
- Capital assets	$ 1,428	$ 1,162	$ 8	$ 2,598

1998	Rubber Mixing & Tire Operations	Engineered Products	Unallocated	Total
Contribution	$ 9,062	$ (770)		$ 8,292
Administrative costs			574	574
Income before interest and taxes				7,718
Interest			1,008	1,008
Provision for taxes			2,150	2,150
Net income				$ 4,560
Assets employed	$ 50,176	$ 8,348	$ 715	$ 59,239
Amortization - Goodwill	127	79		206
- Capital assets	$ 924	$ 432		$ 1,356

	Rubber Mixing & Tire Operations		Engineered Products	
	1999	1998	1999	1998
Net sales: Canada	$ 48,832	$ 48,816	$ 18,307	$ 953
U.S.A.	29,346	23,706	20,980	5,214
Other	700	711	1,946	–
	$ 78,878	$ 73,233	$ 41,233	$ 6,167
Intercompany sales	$ 4,075	$ 2,412	$ 7,616	$ 5,767

NOTE 11– CONTINGENCIES

The Company may be contingently liable for litigation stemming from a patent infringement suit. This case was dismissed in a summary judgement as being without merit but is now under appeal. While it is not possible to estimate the potential costs and losses, if any, management believes that the ultimate resolution will not have a material adverse effect on the consolidated financial position of the Company.

NOTE 12– YEAR 2000 ISSUE

The Year 2000 ("Y2K") Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date resulting in errors when information using the year 2000 date is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The Company developed a Y2K compliance plan, which included, among others, the evaluation of all software and computerized or computer dependent equipment with the assistance of original equipment suppliers and consultants. Equipment and software that was not deemed compliant was either modified or replaced. Critical manufacturing equipment was tested for compliance. Suppliers and customers were surveyed to determine their state of compliance. The Y2K compliance programs were further reviewed by outside consultants prior to the year end to obtain an independent objective evaluation of the Company's compliance processes.

To date no compliance issues have occurred; however, because the Company relies upon assurances of customers and suppliers whose processes cannot be verified and because the Company cannot predict the source of all potential failures, no assurance can be given that disruptions will not occur.

FIVE YEAR FINANCIAL HISTORY

(millions except share and per share)	1999	1998	1997	1996	1995
Value of Goods Produced and Sold	$ 147.6	$ 90.7	$ 56.5	$ 16.3	$ 9.6
Net Sales	120.1	79.4	56.2	16.3	9.6
Gross Margin	27.8	13.5	7.8	4.5	1.4
Net Income	7.4	4.6	3.3	0.7	(2.5)
Cash Flow	14.4	7.7	3.0	1.5	(1.9)
Shareholders' Equity	$ 53.8	$ 34.7	$ 22.2	$ 19.2	$ 7.2
Number of Shares Outstanding*	22,629,573	19,003,945	16,594,431	10,944,431	10,719,431

*1995-1997 restated to reflect one-for-four consolidation in 1998.

Per Common Share					
Net Income					
– Basic	0.35	0.27	0.20	0.08	(0.24)
– Fully Diluted	0.34	0.26	0.20	0.08	(0.24)
Cash Flow (weighted)	0.67	0.46	0.22	0.14	(0.19)
Return on Equity	17%	19%	16%	5%	(35%)

CORPORATE INFORMATION

BOARD OF DIRECTORS AND OFFICERS

P. Grenville Schoch (2)
Chairman, AirBoss of America Corp.
Aurora, Ontario

Robert L. Hagerman (1)
President, AirBoss of America Corp.
Aurora, Ontario

David A. Campbell (2)
President, Acorn Equipment Rental Inc.
Aliston, Ontario

Brian A. Robbins (1)
President and Chief Executive Officer,
Exco Technologies Limited
Aurora, Ontario

Robert L. McLeish (1)(2)
Toronto, Ontario

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.

SOLICITORS

Goodman and Carr
Toronto, Ontario

AUDITORS

PricewaterhouseCoopers LLP
Kitchener, Ontario

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company of Canada

Stock Symbol Toronto Stock Exchange: BOS
Web Site address: www.airbossofamerica.com
Email address: info@airbossofamerica.com

Our Annual Meeting is Thursday, May 11, 2000
4:30 p.m. at the Toronto Sheraton Center

Printed on recycled paper using low-solvent environmentally friendly ink.
Printed in Canada.

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TORONTO

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Facsimile:	416-368-4448
Chairman:	P.G. (Gren) Schoch
President and Chief Executive Officer:	R.L. (Bob) Hagerman
Vice-President Finance:	Axel G. Breuer
Investor Relations:	S.M. (Suzi) Leonard

KITCHENER

ITRM Division

101 Glasgow Street, Kitchener, Ontario, Canada N2G 4X8

Telephone:	519-576-5565
Facsimile:	519-576-1315
Divisional President:	William (Bill) Sword
Technical Director:	Ben Stevens
Vice-President Tire Sales and Marketing:	Berkley Howard

SUBSIDIARIES

MONTREAL

Acton International Inc.

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